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BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Annual Compliance Review, 2014 | Docket No. ACR2014

PUBLIC REPRESENTATIVE COMMENTS
(February 2, 2015)

Respectfully submitted,

Tracy N. Ferguson
Public Representative

901 New York Avenue, NW, Suite 200
Washington, DC 20268-0001
PH: 202-789-6844, FAX: 202-789-6891
Email:Tracy.Ferguson@prc.gov

TABLE OF CONTENTS

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Pursuant to the Commission's Notice in this proceeding,[1] the Public Representative hereby comments on the Postal Service's FY 2014 Annual Compliance Report (2014 ACR) filed for fiscal year 2014 as prescribed by the Postal Accountability and Enforcement Act (PAEA). 39 U.S.C. § 3652.[2]

The Postal Service's 2014 ACR is "to demonstrate that all products during the year complied with all applicable requirements of [title 39]." 39 U.S.C. § 3652(a)(1). These Comments address matters relating to the Postal Service's (1) service performance (2) customer access (3) market dominant products (4) worksharing and (5) competitive products.[3]

The Public Representative has reviewed the Postal Service's 2014 ACR together with previous Commission Annual Compliance Determinations (ACDs) and the Commission's directives and recommendations for Postal Service action in those proceedings. Since the passage of the PAEA, the Commission's annual analysis of the Annual Compliance Reports has matured and stabilized with primary focus on the financial difficulties of the Postal Service, and on review of service performance and customer access, market dominant product cost coverages, worksharing passthroughs,

[1] Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, Order No. 2313, December 31, 2014.

[2] United States Postal Service FY 2014 Annual Compliance Report (2014 ACR), December 29, 2014.

[3] Comments on the Postal Service's strategic initiatives and performance plans required by 39 U.S.C. § 2803 and § 2804 and are deferred to a time to be determined by a forthcoming Commission notice regarding the Postal Service's FY 2014 Performance Report and FY 2015 Performance Plan.

contribution from competitive products, and nonpostal services. Performance plans and program performance reports are also reviewed annually.

Overall, with respect to the 2014 ACR, the Public Representative finds that many prior deficiencies in the annual compliance report generally are being satisfactorily ameliorated or eliminated. During FY2014, the Postal Service moved in the right direction by reducing its costs of programs and services and adjusting rates and its rate designs to improve contribution shortfalls resulting from declining mail volumes, the crushing burden of payments to the Retirement Health Benefits Fund (RHBF), its $15 billion debt ceiling, and the price cap limitation in the PAEA. Service Performance for First-Class Mail declined significantly, and Periodicals and Package Services fell overall while Standard Mail service performance improved slightly. Management steps that the Postal Service is taking to upgrade servicer performance are not adequately identified.

These Comments discuss areas in need of improvement, in Postal Service methodology, service performance, rates, and in presentation of the ACR.

I. INTRODUCTION

In each review of a Postal Service ACR, the Commission is charged with determining: (1) whether any rates or fees in effect during the preceding year were not in compliance with chapter 36 of title 39 and its accompanying regulations; (2) whether any service standards in effect during the preceding year were not met, pursuant to 39 U.S.C. § 3653(b); and (3) may recommend actions to the Postal Service for the protection or promotion of the public policy objectives of title 39. 39 U.S.C. § 3653(d). In addition, the Commission is to evaluate whether the Postal Service has met the goals related to performance and planning established pursuant to sections 2803 and 2804 of title 39. Comments on the latter matters have been deferred as noted above.

II. SERVICE PERFORMANCE

The Postal Service is required to report annually on each market dominant product's national level of service performance measured in terms of speed and reliability based upon annual service targets (goals) established by the Postal Service. 39 U.S.C. § 3652(a)(2)(B)(i). Reporting is not required where the Commission has granted a semi-permanent exception or a temporary waiver.[4]

Although the Postal Service extended most of its delivery standards late in FY 2012 by one full day in most cases, the Postal Service's performance in FY 2014 was, at best, one of slight gains in performance by a few isolated products. Overall, FY 2014 was a year of general decline in national service performance of about 1 to 2 percent for many products. No national progress was reported for products for which the Commission requested or directed the Postal Service to take steps to improve service performance. The Postal Service offers virtually no information about new management strategies introduced in FY 2014, if any, that it has undertaken to improve service performance of those products.

The Postal Service says that for some products, in some districts, targets have been met or exceeded, but that there are several cases where performance targets have not yet been met at the national level. 2014 ACR at 39. However, review of the quarterly data indicates that many products failed to meet their goals in at least the first two quarters and in several cases three and four quarters. Overall, it is fair to conclude that in FY 2014 there was a consistent failure to meet product delivery category service performance targets during the first and second quarters of FY 2014 and often in all four quarters.

Reported service performance for each class of market dominant mail is discussed below.

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[4] Docket No. RM2009-11, Order Establishing Final Rules Concerning Periodic Reporting of Service Performance Measurements and Customer Satisfaction, Order No. 465, May 25, 2010.

A. First-Class Mail

Annual Service Performance. For First-Class Mail, the Commission concluded in the Annual Compliance Determination Report, Fiscal Year 2013 (2013 ACD) that the Postal Service "must improve performance for products that did not meet the annual targets" and "should take appropriate action to improve the performance for these products."[5] The Postal Service did not improve the annual service performance of any of those products. The Postal Service cites to some actions it is taking to improve performance, but those actions are similar to management initiatives cited in prior years that have not been successful in meeting performance targets. The Postal Service neither explains why its management actions were unsuccessful nor whether, or why, they should be successful in the future.

Table II-1, below, compares the annual FY 2014 and FY 2013 targets and percent on-time performances. Areas in red reflect large drop-offs in on-time performance. The few green highlights show the very slight on-time improvements which are within the statistical margin of error of less than +/-1.0 percent up to +/- 2.4 percent with a 95 percent confidence level for Presort Single-Piece Letters/Postcards, and +/-3.0 percent with a 95 percent confidence level for Single-Piece First-Class Mail International Letters.[6]

[5] 2013 ACD at 107. The First-Class Mail products that failed to meet performance targets in FY 2013 were 3-5 day Single-Piece Letter/Postcards, and each of the three delivery-period categories for Flats and International mail. 2013 ACD at 104, Table V-2.

[6] USPS-FY14-29. Annual Report on Service Performance for Market Dominant Products (USPS-FY14-29) at 6.

TABLE II-1
First-Class Mail Annual Targets and Percent On-Time
FY 2014 and FY 2013

First-Class Mail®	**Origin / Destination**			
	Annual 2014[1]		**Annual 2013**[2]	
	Target	**% On-Time**	**Target**	**% On-Time**
Single-Piece Letters/Postcards				
Overnight	96.80	96.7	96.70	96.8
Two-Day	96.50	95.7	95.10	96.0
Three-To-Five-Day	95.25	88.6	95.00	92.5
Presort Letters/Postcards				
Overnight	96.80	97.2	96.7	97.3
Two-Day	96.50	96.6	95.10	97.2
Three-To-Five-Day	95.25	92.5	95.00	95.4
Flats				
Overnight	96.80	84.9	96.70	86.6
Two-Day	96.50	82.5	95.10	84.4
Three-To-Five-Day	95.25	72.6	95.00	77.6
Parcels				
Overnight	96.80	88.4	96.70	89.8
Two-Day	96.50	86.8	95.10	89.1
Three-To-Five-Day	95.25	83.8	95.00	88.8
Outbound Single-Piece First-Class Mail® International				
Overnight	N/A	93.0		94.3
Two-Day	N/A	93.2		92.7
Three-To-Five-Day	N/A	85.7		87.5
Combined	94.0	87.8		88.9
Inbound Single-Piece First-Class Mail® International				
Overnight	N/A	91.8		92.3
Two-Day	N/A	89.4		90.7
Three-To-Five-Day	N/A	82.9		86.6
Combined	94.0	85.2		88

[1] USPS-FY14-29 at 4.
[2] 2013 ACD at 104 Table V-2, FY 2013.

From an annual service performance standpoint, FY 2014 was a disappointing year for First-Class Mail. Although the Postal Service optimistically increased all of its on-time service performance targets for FY 2014 for all domestic First-Class Mail, the annual percent on-time service performance during FY 2014 *fell below* the FY 2013 percent on-time service performance for *every* domestic category and delivery time of First-Class Mail. Furthermore, the only domestic delivery categories to meet the FY 2014 targets were Presort Letters/Postcards, overnight and two-day (highlighted in green on Table II-1). As in FY 2013, First-Class Mail Flats and Parcels underperformed,[7] and failed to reach their FY 1014 on-time delivery goals.

For First-Class International mail, the Postal Service did not raise last year's targets, yet all but one of the First-Class Mail International product delivery times also fell below FY 2013 percent on-time delivery performance and failed to meet FY 2014 targets. Only 2-day Outbound Single-Piece First-Class Mail International performance improved over FY 2013, moving up slightly by 0.4 percent to 93.2 percent on-time from 92.7 percent on-time (highlighted in green on Table II-1).

Thus, only three of 18 First-Class Mail national delivery categories met service performance for FY 2014, and service performance plummeted in some areas. That is, while improvements in service performance are often measured in tenths of a percentage point for First-Class Mail, and while performance targets are increased by such small amounts, annual performance fell in FY 2014 from between 2 to 5 whole percentage points in several categories of First-Class Mail, amounts that are unlikely to be made up for several years.

The Postal Service's discussion in its library references acknowledges only that its targets for Flats and Parcels were not met. Its comment is as follows:

> While First-Class Mail flats and parcels did not meet their applicable service standards, the Postal Service's continued use of root cause diagnostic tools and continuous improvement projects will allow operating managers to improve processing and transportation flows, which should improve service performance. USPS-FY14-29 at 9.

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[7] 2013 ACD at 104.

The Postal Service's conclusion fails to mention failures to meet on-time performance targets in each of the First-Class Mail product categories other than Flats and Parcels and in most delivery-time periods as well. The annual on-time delivery performance fall-off in FY 2014 was particularly significant in three-five-day First-Class Mail, with service performance in each price category falling precipitously (highlighted in red on Table II-1). The Postal Service discussion only noted the failure of Flats and Parcels to meet standards, but did not point out the magnitude of the drop in three-five-day Flats and Parcels deliveries where each dropped a whopping 5.0 percent on an annual basis.[8] A similarly significant fall-off occurred in the three-five-day Single-Piece Letters/Postcards of almost 4.0 percent from 92.5 to 88.6 percent on-time. Also, Presort Letter/Postcards dropped 3.9 percent, and Outbound Single-Piece First-Class Mail International dropped 2.8 percent while Inbound Single-Piece First-Class Mail International fell 3.7 percent.

In Docket No. ACR2012, the Public Representative expressed hope that the substantially improved service performance in FY 2012 was "realistic and sustainable."[9] Improvements in First-Class delivery performance in FY 2012 were claimed by the Postal Service to be due to new diagnostic tools for flats and the use of the IMb barcode on letters and flats.[10] Two years later, it appears the performance improvements were not sustainable and have fallen below FY 2012 performance levels. *See Id*. at 21. Although the Postal Service increased its delivery *standards* by one full day during the 4th quarter of FY 2012 without significantly increasing its performance targets (which aided on-time performances for FY 2013),[11] and continued its use of diagnostic tools

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[8] Since both Parcels and Flats each suffered from significant reductions in delivery performance, the measurement of only retail parcels mailed over-the-counter at Post Offices until systems are in place to measure commercial pieces mailed in bulk or from other locations does not provide any justification for the performance reduction. *See* USPS-LR-14-29 at 3.

[9] Docket No. ACR2012, Public Representative Initial Comments at 25.

[10] *Id*. 22.

[11] *See,* 2013 ACD at 105.

new in FY 2012 as well as other tools, delivery performance in FY 2014 nevertheless dropped significantly.[12]

Quarterly Service Performance. Postal Service Library Reference, USPS-FY14-29 cites to unusually bad weather during quarters 1 and 2 as the reason for First-Class Mail targets were not being met. *Id.* at 8. During several storms, First-Class Mail with service standards longer than two days (*i.e*. three-five-days in its tabulation) was diverted from airplanes to surface transportation which was also affected by the weather. *Id.* at 8-9. The quarterly performance results clearly indicate quarters 1 and 2, which include periods of winter weather, sustained much lower deliverability performances for Flats and Parcels for all delivery times.

The effect of winter weather greatly impacted three-five-day First-Class Flats which badly missed the annual on-time target of 95.25 percent. First-Class Flats missed the target by almost 26 percentage points during quarters 1 and 2 with only 69.5 percent and 69.4 percent on time, respectively (highlighted in red on Table II-2). Only slight improvements were made in quarters 3 and 4 for First-Class Flats as the on-time performance percentages moved to the mid-70s.

[12] The Postal Service mentions other management tools apparently utilized in FY 2014 but not necessarily implemented in FY 2014 since most of the actions would seem to be tasks expected of management. They list: a focus on clearance and dispatch of mail, partnering with suppliers on performance indicators, field managers' focus on processing, dispatching and assignment of mails and Lean Mail Processing (LMP) at all plants and distribution centers. USPS-FY14-29 at 9.

TABLE II-2
First-Class Mail Annual and Quarterly Targets and Percent On-Time
FY 2014

First-Class Mail®	Origin / Destination FY 2014					
	Annual[1]		Q. I[2]	Q. II[2]	Q.III[3]	Q. IV[3]
	Target	% On-Time	% On-Time			
Single-Piece Letters/Postcards						
Overnight	96.80	96.7	96.3	96.3	97.2	97.1
Two-Day	96.50	95.7	95.0	94.7	96.6	96.5
Three-To-Five-Day	95.25	88.6	86.1	85.1	91.0	92.2
Presort Letters/Postcards						
Overnight	96.80	97.2	97.0	96.7	97.5	97.7
Two-Day	96.50	96.6	96.2	95.4	97.2	97.5
Three-To-Five-Day	95.25	92.5	91.4	90.2	93.7	95.0
Flats						
Overnight	96.80	84.9	83.6	83.8	85.7	86.5
Two-Day	96.50	82.5	81.6	80.5	84.1	83.7
Three-To-Five-Day	95.25	72.6	69.5	69.4	74.9	76.4
Parcels						
Overnight	96.80	88.4	83.6	83.8	90.1	90.6
Two-Day	96.50	86.8	84.9	84.0	89.1	90.1
Three-To-Five-Day	95.25	83.8	80.4	80.9	87.1	88.5

1. USPS-FY14-29, FY14 ACR First-Class Mail.xls at 1.
2. *Id.* at 3 of 9.
3. *Id.* at 4 of 9.

Similarly, during quarters 1 and 2, the First-Class Parcels three-five-day performance target of 95.25 percent missed the mark by almost 15 percentage points with 80.4 percent and 80.9 percent on time, respectively (highlighted in red on Table II-2). Unlike service for First-Class Flats, Parcels service performance during quarters 3 and 4 notched up to 87.1 and 88.5 percent on-time, respectively, yet still about 7 to 8 percentage points below the target of 95.5 percent on-time.

The performances for Single-Piece Letters/Postcards and Presort Letters/Postcards were not hampered as much during the winter periods. Delivery performances of Letters/Postcards during winter quarters 1 and 2 for overnight and two-day deliveries were all within about two percentage points of quarters 3 and 4 delivery performances which were close to target levels of 96.8 and 96.5 percent, respectively.[13] However, First-Class Letter/Postcards three-five-day deliveries during the winter quarters 1 and 2 were about 5 percentage points below on-time deliveries in quarters 3 and 4 (86.1 percent and 85.1 percent in quarters 1 and 2 and 91.0 percent and 92.2 percent in quarters 3 and 4). *Id.* at 3 and 4 of 9. First-Class Presort Letters/Postcards fared only slightly better because three-five-day performance in quarter 1 at 93.7 percent did not decline as much as Single-Piece Letter/Postcards during quarter 1. *Id*. at page 4 of 9.

First-Class Presort Letters/Postcards were only able to meet their Overnight targets in all quarters (highlighted in green on Table II-2). During periods other than winter, First-Class Single-Piece Letters/Postcards met their Overnight targets in quarters 3 and 4 and Presort Letters/Postcards met their two-day targets in quarters 3 and 4 (highlighted in green on Table II-2).

International Mail Letters, in quarters 1 and 2, generally fell far short of the annual combined International Mail target of 94.0 percent on-time. In quarter 1, Combined Outbound International Letters and Combined Inbound International Letters

[13] USPS-FY14-29, FY14 ACR First-Class Mail.xls at 3 and 4 of 9.

were approximately 10 points below target at 83.2 percent and 85.5 percent, respectively.[14] Overall, they did not improve in quarter 2, with percent on-times of 87.9 percent and 85.2 percent, respectively (highlighted in red on Table II-3). Their combined performance was held down by low three-five-day performances in quarters 1 and 2. Outbound International Letters during quarters 3 and 4, together, were essentially on target at 92.4 percent in quarter 3 and 94.9 percent in quarter 4, but Inbound International letters struggled at about 5 percent below target in quarters 3 and 4 at 89.6 percent and 89.7 percent.[15]

TABLE II-3
First Class International Mail Annual and Quarterly Targets and Percent On-Time FY 2014

International Mail	Origin / Destination FY 2014					
	Annual¹		Q. I²	Q. II²	Q.III³	Q. IV³
	Combined Target	% On-Time	% On-Time			
Outbound Single-Piece First-Class Mail® International Letters						
Overnight	N/A	93.0	94.3	93.7	93.7	94.6
Two-Day	N/A	93.2	88.6	96.0	97.2	98.0
Three-To-Five-Day	N/A	85.7	81.2	84.9	90.6	93.8
Combined (Ltrs)	94.0	87.8	83.2	87.9	92.4	94.9
Inbound Single-Piece First-Class Mail® International Letters						
Overnight	N/A	91.8	95.1	95.8	93.2	94.7
Two-Day	N/A	89.4	90.4	89.4	93.8	94.3

[14] *Id*. at 8 of 9.

[15] *Id*. at 9 of 9.

Three-To-Five-Day	N/A	82.9	82.6	82.4	87.4	87.5
Combined (Ltrs)	94.0	85.2	85.5	85.2	89.5	89.7

1. USPS-FY14-29, FY2014 ACR First-Class Mail.xls at 1.
2. *Id.* at 8 of 9.
3. *Id*. at 9 of 9.

International Flats and Parcels were far below the combined International Mail target of 94 percent. The performance of Single-Piece First-Class Mail flats from EXFC data and Single-Piece parcels, where tracking is purchased, are proxies for the First-Class International inbound and outbound flats and inbound parcels. The Postal Service justifies this because the processing is the same. USPS-FY14-29 at 7-8. Both Outbound and Inbound overnight and two-day Flats were at 84.9 percent and 82.5 percent, respectively. USPS-FY14-29, FY14 ACR First-Class Mail.xls at 6 of 9. Far below the target, the three-to-five-day Outbound and Inbound mail was on time only 72.6 percent of the time. *Id.*

Management actions. The Postal Service cites only to several management actions without offering specific planned outcomes. The Postal Service does not indicate that any of these actions were introduced in FY 2014 for the first time. The Postal Service points to the “timely clearance and dispatch of mail at origin facilities,” monitoring and partnering with suppliers on performance indicators, field managers focusing on timely processing, dispatching and assignment of mails, standardizing mail processing operations through specific Lean Six Sigma projects, and diagnostic tools. USPS-FY14-29 at 9. Many of these actions were undertaken in prior years without satisfactory results. The Postal Service does not set forth any new management plans intended to increase the percent on-time performance for First-Class Mail to meet its service performance targets.

The large discrepancy between targets and performances suggests the targets, while an incentive for management, may be misleading to mailers. On the other hand, the transparency of regular reporting the performance percentages by quarter can be a useful guide when made available to mailers concerned about delivery. If the Postal Service's operating plan will permit on-time delivery when weather or other unusual events do not interfere, then the targets may be fair. Where performance falls 10 to 15 points below target regularly, either the target ought to be reduced or operating systems need significant and immediate improvement.

B. Standard Mail

In FY 2013, Standard Mail constituted 51.0 percent of total mail delivered. ACD 2013 at 107. The Commission commented in the 2013 ACD that the service performance for FY 2013 for Flats and Carrier Route products had the lowest service performance among Standard Mail products. 2013 ACD at 112. The Commission concluded the Postal Service should "continue to address concerns of low IMb volumes or unavailable IMb data provided at the district level in order to assure reliable service measurement." *Id*.

The Standard Mail targets and on-time percentages for FY 2014 and FY 2013 are compared below in Table II-4.

TABLE II-4
Standard Mail Annual Targets and Percent On-Time
FY 2014 and FY 2013

Standard Mail®	Origin/Destination Annual FY 2014[1]		Origin/Destination Annual FY 2013[2]	
	Target	% On-Time	Target	% On-Time
High Density and Saturation Letters	91.0	92.3	90.0	90.8
High Density and Saturation Flats/Parcels	91.0	87.2	90.0	87.0
Carrier Route	91.0	81.4	90.0	79.7
Letters	91.0	87.1	90.0	85.9
Flats	91.0	76.2	90.0	76.9
Parcels	91.0	NA	90.0	98.7
Mixed Product Standard Letters	91.0	88.0	90.0	85.9
Mixed Product Standard Flats	91.0	81.4	90.0	80.2

1. USPS-FY14-29, FY14 ACR Standard Mail.xls
2. 2013 ACD at 108, Table V-3.

Annual Service Performance. The annual Standard Mail service performance for FY 2014 generally improved at the annual level over the performance for FY 2013 by percentage points ranging from 0.20 percent to 1.7 percent in each rate category except for Flats which declined by 0.7 percent on-time (highlighted in red on Table II-4). Nevertheless, six of eight categories of Standard Mail failed to meet the targets by a large margin. Two categories missed by almost 10 percent on-time

The High Density and Saturation Letters category in FY 2014 (highlighted in green on Table II-4) was the only category to exceed the annual target which had also exceeded its target in FY 2013. Although the annual target for all Standard Mail was raised from 90.0 percent to 91.0 percent for all categories in FY 2014, only the High Density and Saturation Letters Category met even the FY 2013 target of 90.0.[16]

Quarterly Service Performance. Only one Standard Mail product met its on-time performance target during any quarter of FY 2014: High Density and Saturation Letters met the 91.0 on-time performance target during quarters one, three and four with 91.2 percent, 93.3 percent and 94.5 percent on-time, respectively. *Id.* Every other Standard Mail product failed to meet its annual target in any quarter in any delivery period category. Overall, low on-time percentages in quarters 1 and 2 improved somewhat in quarters 3 and 4 for all Standard Mail rate categories. *Id.*

Management actions. The Postal Service asserts that diagnostic tools and timely start-the-clock scans for accurate measurement will continue to increase performance. *Id*. at 14. As with First-Class Mail, it appears that these management actions are the same management actions applied in prior years that have largely not been successful or yield minimal results.

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[16] Parcels met their target last year, but this year the target of 91.0 percent is not applicable due to product realignment. USPS-FY14-29, FY14 ACR Standard Mail.xls

C. Periodicals

In FY 2013, Periodicals' service performance for both Within County and Outside County each improved to 82.0 percent and 82.1 percent, respectively, a significant 13 percent increase over FY 2012. The Postal Service claimed this improvement was due to increased volumes of Periodicals and the use of processing equipment and diagnostic tools such as Work-in-Process and information gathered from IMb. The proportion of Periodicals measured by IMB increased in FY 2013. Nevertheless, the Postal Service did not meet the FY 2013 goals of 91.0 percent. 2013 ACD at 112. The Commission concluded the Postal Service must "continue to improve service performance for Periodicals Mail." *Id*. at 113.

The Periodicals targets and on-time percentages for FY 2014 and FY 2013 are compared below in Table II-5.

TABLE II-5
Periodicals Annual Targets and Percent On-Time
FY 2014 and FY 2013

Periodicals	**Origin/Destination[1]**		**Origin/Destination[2]**	
	Annual FY 2014		**Annual FY 2013**	
	Target	**% On-Time**	**Target**	**% On-Time**
In-County	91.0	80.9	91.0	82.0
Outside County	91.0	80.8	91.0	82.1

1. *Id.* at 15.
2. 2013 ACD at 112.

In FY 2014, Periodicals again failed to meet targets as the percent on-time *fell* by more than 1 percentage point to 80.9 percent for In-County and to 80.8 percent for Outside County. USPS-FY14-29 at 15. Pursuant to Commission suggestion in an order in 2010, the Postal Service uses the performance of all Periodicals as a proxy for In-County Periodicals due to their small size and scope, making them less likely to utilize barcoding or mail-preparation systems for product-level performance measurement. *Id*. 16 at n 5. About 32 percent of all Periodicals were included in measurement in FY 2014 encompassing virtually all 3-Digit Zip Code areas. *I*d. at 15.

The small improvements claimed for In-County are derived by proxy from improvements to Outside County where certain quarterly service performance improvements of 0.7 percent in quarter 3 (from 82.7 percent to 83.4 percent) and of 0.1 percent in quarter 4 (from 83.1 percent to 83.2 percent) were not sufficient to offset performances in quarters 1 and 2 to maintain overall Periodicals service performance at FY 2013 levels. *Id.* at 16-17. Nevertheless, the Postal Service claims it continued to increase the use of diagnostic tools in FY 2014 which, together with the use of automation, is expected to improve Periodicals' service. *Id.* at 17

D. Package Services

In the 2013 ACD, the Commission noted that the Bound Printed Matter Flats percent on-time of 62.6 percent had among the lowest annual service performance of the Package Service products. 2013 ACD at 115. It noted the Postal Service continued to receive low volumes of measurable data. The Commission concluded that the Postal Service should develop strategies to enhance Full-Service mailer participation and increase service performance results. *Id.*

Strategies to enhance Full-Service mailer participation in Package Services that the Commission directed the Postal Service in the 2013 ACD to develop are not specifically identified in 2014 ACR. The Postal Service's library reference notes only that, "The Postal Service continues to use scan data to diagnose root cause of failures. Sites most impacting the nation's scores are put on a vitals list so that they can be better monitored." USPS-FY14-29 at 22. These steps do not appear to represent strategies undertaken by the Postal Service in response to ACD 2013 to enhance service performance. *The Commission should inquire through an information request what steps the Postal Service has taken pursuant to its ACD 2013 directive to improve service performance of package services, particularly Bound Printed Matter Flats.*

The Package Services targets and on-time percentages for FY 2014 and FY 2013 are compared below in Table II-6.

TABLE II-6
Package Services Annual Targets and Percent On-Time
FY 2014 and FY 2013

Package Services	Origin / Destination Annual FY 2014[1]		Origin / Destination Annual FY 2013[2]	
	Target	% On-Time	Target	% On-Time
Parcel Post/Alaska Bypass	90.0	NA	90.0	85.0
Bound Printed Matter Flats	90.0	60.2	90.0	62.6
Bound Printed Matter Parcels	90.0	99.3	90.0	98.4
Media Mail®/Library Mail	90.0	91.7	90.0	93.3
Inbound International Surface Parcel Post® (at UPU rates)	90.0	85.2	90.0	87.8

1. USPS-FY14-29 at 20.
2. 2013 ACD at 114.

NA indicates that no data were available for measurement.

Annual Performance. For FY 2014, the target for all Package Service products remained at 90 percent. *Id*. at 114, Table V-6. Contrary to the Commission's admonition to the Postal Service to seek to increase performance results of Package Services, as with other classes of mail, annual service performance generally fell off during FY 2014. Annual service performance declined for three of four Package Service products, Bound Printed Matter Flats, Media Mail/Library Mail and Inbound International Surface Parcel Post (at UPU rates).[17] Only Bound Printed Matter Parcels increased during FY 2014; moving up 0.9 percent to a salutatory 99.3 percent annual on-time performance.

Annual performance of Bound Printed Matter Flats has remained consistently very low and decreased in FY 2014 to 60.2 percent, down from 62.6 percent in FY 2013 (highlighted in red on Table II-6). The quarterly on-time percentages were far lower in

[17] A performance score was no longer available for last years' Single-Piece Parcel Post as that product has been realigned to include only Parcel Post/Alaska Bypass Parcel Post. USPS-FY14-29 at 20. The Commission granted a Semi-Permanent exception for periodic reporting of service performance measurement for Alaska Bypass Service, Docket No. RM2015-1, October 15, 2014. Id. at 18.

quarter 2 at 55.8 percent on-time, in quarter 3 at 59.1 percent on-time, and in quarter 4 at 55.3 percent on-time. Only an aberrant quarter 1 of 68.9 percent on-time raised the average to above 60 percent. USPS-FY14-29, FY14 ACR Package Services.xls, aggregation. This very low on-time level of performance for Bound Printed Matter Flats remains unacceptable performance, particularly where Parcels and Media Mail/Library Mail have exceeded their 90 percent targets each year since at least FY 2012. USPS-FY14-29 at 20; 2013 ACD at 114.

Bound Printed Matter Flats are measured with the IMAPS[18] which differs from the PTS[19] used to measure performance of the Bound Printed Matter Parcels and Media Mail/Library Mail. Although not anticipated, this dichotomy of measurement systems may account for part of the large discrepancy in service performance results between these products. PTS measures actual transit time when customers have requested USPS tracking for Media Mail/Library Mail and Bound Printed Matter Parcels. USPS-FY14-29 at 19. IMAPS uses documented arrival time at a postal facility and IMb scans by third-party reporters to stop the clock. *Id*. In-process IMb scans and external data extrapolated results are calculated by a third-party external contractor. *Id*. Only 7 percent of both Bound Printed Matter Parcels and Bound Printed Matter Flats are measured although 56 percent of Media Mail/Library Mail volume is measured. *Id*. at 21. The margin of error for bound Printer Matter Flats in some districts is as much as +/-8.0 percent due to the availability of limited data. *Id.* The low percentage of measured volume and the use of reporters may be accounting for the large difference in measured performance between the products.

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[18] Intelligent Mail Accuracy and Performance System. USPS-FY14-29 at 19.

[19] Product Tracking System. *Id*. at 18.

E. SPECIAL SERVICES

In FY 2013, the Postal Service exceeded its targets for each special service product although service performance for Ancillary Services and Post Office Box Service declined in FY 2013. The Commission did not order any actions to improve Special Services performance in the 2013 ACD.

Special Services targets and on-time percentages for FY 2014 and FY 2013 are compared below in Table II-7. The table does not include all special services. There are several more Special Services for which semi-permanent suspension of reporting requirements was authorized by the Commission. The library reference includes the list of those special services. *Id*. at 26.

TABLE II-7
Special Services Annual Targets and Percent On-Time
FY 2014 and FY 2013

Special Services	Annual 2014[1]		Annual 2013[2]	
	Target	% On-Time	Target	% On-Time
Ancillary Services	90.0	92.3	90.0	91.4
International Ancillary Services	90.0	99.7	90.0	99.3
Address List Services	90.0	33.3	90.0	100.0
Caller Services	NR	NR	90.0	-
Change-of-Address Credit Card Authentication	NR	NR	90.0	-
International Reply Coupon Service	NR	NR	90.0	-
International Business Reply Mail Service	NR	NR	90.0	-
Money Orders	90.0	98.3	90.0	99.2
Post Office™ Box Service	90.0	90.2	90.0	90.9
Customized Postage	NR	NR		-
Stamp Fulfillment Services	90.0	98.4	90.0	98.4

1. USPS-FY14-29 at 25.
2. 2013 ACD at 116.

NR indicates that the information is not required due to semi-permanent exception

In FY 2014, Post Office Box Service performance declined further by 0.7 percent to 90.2

percent, but remained above the 90.0 percent target level. Ancillary Services increased service performance by 0.9 percent to 92.3 percent and remained above its 90.0 percent target.

The Postal Service satisfactorily explains, but does not justify, the precipitous drop in percent on-time performance for Address List Services from 100.0 percent to 33.3 percent as owing to the limited number of Address List service requests (12) and the failure at one office to respond to a request within the 15 working day target. The office responded in 22 working days because the request was received early in November, just prior to the holiday period but before the date that the targets were suspended until January 1. *Id*. at 27.

F. Conclusion on Service Performance

In conclusion, it may be necessary for the Commission to investigate whether and to what degree the Postal Service is actually attempting to comply with the Commission's service performance directives and if so, how. This would include review of the actions and initiatives that have been considered and rejected and what new management steps have been instituted to enhance service performance in areas where the Commission has directed Postal Service management actions.

III. CUSTOMER ACCESS TO POSTAL SERVICES

A. Introduction

Pursuant to 39 CFR § 3055.91, the Postal Service must provide data to the Commission on the number and type of post offices, information on the number of collection boxes in its network, and information about average customer wait time in line. 39 CFR § 3055.92.

B. Retail Access

Table III-1 shows the number of various types of retail post offices from FY 2010 to FY 2014 and the average annual percentage change during those years.

TABLE III-1
Postal Offices FY 2010 to FY 2014

Post Offices, Stations And Branches						Cumulative Percent Change	Average Annual Percent Change
	2014	2013	2012	2011	2010	2010-2014	2010-2014
	A	B	C	D	E	F=(A/E)-1	G=((A/E)-1)/4
Total Postal-managed	31,662	31,702	31,857	32,146	32,528	-2.7%	-0.7%
USPS-Contract Postal Units	2,660	2,718	2,792	2,904	2,931	-9.2%	-2.3%
Village Post Offices[1]	759	385	47	0	0	n/a	n/a
Community Post Offices	560	629	673	706	763	-26.6%	-6.7%
Total Offices, Stations, and Branches	35,641	35,434	35,369	35,756	36,222	-1.6%	-0.4%

Source: United States Postal Service, 2014 Annual Report to Congress at 45, 2013 Annual Report to Congress at 34.
[1] Village Post Offices increased 97 percent between 2013 and 2014.

The data in Table III-1 are national numbers. They show that the Postal Service has managed to maintain the number of total post offices available to the public since 2010, allowing only an average annual 0.4 percent decline and a total 1.6 percent decline from that year. Community Post Offices, or Stations and Branches in rural areas, saw the largest annual average percent annual decline of 6.7 percent, total percent decline of nearly 27 percent, and a loss of 237 Post Offices between 2010 and 2014.

This decline in full-service postal service to rural areas has been replaced and/or supplemented with the addition of 759 Village Post Offices. Village Post Offices (VPOs) are not full service, but provide some of the most popular Postal products and services, including PO Boxes, Forever stamps and prepaid shipping envelopes, and offer longer hours than regular post offices. *2014 USPS Annual Report to Congress at 9*.
Whether the growth of VPOs has maintained the same level of access to rural retail facilities is an open question. Rural retail customers must now travel further to obtain services not offered at VPOs. *Whether this constitutes a decline in access depends on the extent to which this occurs, the importance of the services which must then be*

obtained at a full service rural facility, and the difficulty of travelling to a full-service rural retail facility. The Commission should obtain the data necessary to answer this question.

C. Collection Points

Collection points permit customers to drop-off single-piece First-Class Mail into collection boxes in residential neighborhoods or in business districts, lobby drops inside Post Offices, and drops into blue boxes outside Post Offices.[20]

The Postal Service has provided data on the number of collection boxes, by 3-digit ZIP Code, Location-Type, Service Center, Box Type and other variables for the end of Fiscal Year 2014.[21] The number and the percentage change in collection points at each type of collection location show that collection points decreased by 2,273 during FY 2014, approximately 1.2 percent. *Id.* The location with the greatest increase in number of collection points is “Post Office Outside” with an increase of just over 3,000 units.[22] Locations with the greatest reductions occurred in “Post Office Lobby” and “Business Locations,” with reductions of approximately 3,000 and just less than 2,500, respectively. Table III-2 compares the absolute and percent reductions in collection points by type of location. The Public Representative is heartened to see that residential collection points showed a small, 1 percent loss, of collection points. Business collection points, with a loss of 2,500 (3 percent decline), is a location type with one of the largest losses. Nevertheless, the number of collection points has

[20] These are the type of Post Offices most likely to be used by residential and business customers. Other collection points include “Firm,” “Airport,” and “Other.” *See* USPS-FY13-33.

[21] Responses of the United States Postal Service to Questions 1-2, 3a-b, 3d, 4, 6, 7a-e, 8-9, and 11-21 of Chairman’s Information Request No. 1, Question No.16.

[22] “Other” Collection Points had a higher increase, but since most of “Other” is comprised of Hub/Depot Collections, which are not retail collection points, they should not be included for these purposes.

remained stable since last year. Table III-2 compares the absolute and percent reductions in collection points by type of location.

TABLE III-2
Number of Collection Points by Location Type

	Year		Change in Number	Change in Percent
Location Type	**2014**	**2013**	**2014-2013**	**2014-2013**
BUSINESS	76,442	78,939	-2,497	-3.2%
POST OFFICE OUTSIDE	42,646	39,371	3,275	8.3%
POST OFFICE LOBBY	39,952	42,996	-3,044	-7.1%
RESIDENTIAL	38,606	38,709	-103	-0.3%
CUSTOMER LOBBY	3,494	3,614	-120	-3.3%
CONTRACT STATION	1,075	1,024	51	5.0%
MAIL ROOM	785	758	27	3.6%
GOVERMENT BUILDING	370	314	56	17.8%
CUSTOMER DOCK	303	150	153	102.0%
APPROVED SHIPPER	216	316	-100	-31.6%
AIRPORT	147	118	29	24.6%
Grand Total	**204,036**	**206,309**	**-2,273**	**-1.1%**

Sources: Id., ACD FY2013, at 124; and Responses of the United States Postal Service to Questions 1-2, 3a-b, 3d, 4, 6, 7a-e, 8-9, and 11-21 of Chairman's Information Request No. 1, Question No.16.

The Public Representative is heartened to see that residential collection points showed a very small loss of only 103 collection points. The loss of 2,500 business collection points is one of the location types with the largest loss of collection points, but this represents only a 3 percent decline. It is fair to say that the number of collection points has remained stable since last year.

D. Wait Time in Line

The Postal Service reports that "[a]verage wait time in line improved at the national level from 2 minutes 29 seconds in FY 2013, to 2 minutes 24 seconds in FY 2014. Average wait time in line also improved in four of the seven Areas from FY 2013 to FY 2014 and remained the same in one Area." Table III-3 shows the average wait time by region for the last two years and each region's difference from the national average.

TABLE III-3
Average Wait Time in Line by Region
FY 2014 Compared to FY 2013 and
FY 2014 National Average

(In Seconds)

	FY 2014	FY 2013	FY 2013 to FY 2014	FY 2014	FY 2014	FY 2013
Area	**Wait Time in Line**	**Wait Time in Line**	**Change (seconds)**	**National Average**	**Difference From National Average**	**Difference From National Average**
Capital Metro	2:03	2:19	(16)	2:24	(21)	(10)
Eastern	2:00	2:16	(16)	2:24	(24)	(13)
Great Lakes	2:00	2:00	0	2:24	(24)	(29)
Northeast	2:28	2:21	7	2:24	4	(8)
Pacific	3:07	3:19	(12)	2:24	43	50
Southern	2:23	2:22	1	2:24	(1)	(7)
Western	2:47	2:48	(1)	2:24	23	19
National	2:24	2:29	(5)			

Sources: USPS-FY14-33, WaitTimeInLineFY2014.xlsx, and ACD FY2013, at 122.

As stated above, the average national wait time in line was reduced by 5 seconds since last year. There were 4 regions with shorter wait times in line than the national average last year, and 4 again this year, although the Northeast Region's wait time in line compared to the national average worsened, while the Pacific Region improved. Nevertheless, the Pacific Region had the highest wait times in line this year and last. *The Postal Service should investigate why this is so, and take steps to improve wait times in line for the Pacific Region.*

IV. MARKET DOMINANT PRODUCTS

In FY 2014, as illustrated by Table IV-1 below, not all Market Dominant Products covered their attributable costs. The total losses for the nine Market Dominant Products that did not cover their attributable costs in FY 2012, decreased by 0.5 percent. This worse in comparison with FY 2013. However, from FY 2013 to FY 2014, for all products that still fail to cover their attributable costs (except for Standard Mail Flats), either cost coverage increased, or actual loss shortfall decreased. *See* Table IV-1 below. The Public Representative concludes that the observed trends indicate the general stability in cost coverage for the analyzed group of products (with the improvement for First-Class Mail Parcels and degradation for Standard Mail Flats).

TABLE IV-1
FY 2012-FY 2014 Financial Results for Market Dominant Products With Cost Coverage Below 100 Percent in FY 2012

	FY 2012		FY 2013		FY 2014	
Product	**Cost Coverage**	**Loss ($ Millions)**	**Cost Coverage**	**Loss ($ Millions)**	**Cost Coverage**	**Loss ($ Millions)**
First-Class						
Parcels	98.5%	9.648	99.5%	3.119	108.9%	N/A
Inbound S-P Mail Intl.[23]	73.1%	92.794	74.9%	94.515	70.0%	74.803
Periodicals						
Within County	70.5%	28.129	75.9%	20.959	77.7%	19.083
Outside County	72.2%	641.987	76.1%	499.899	75.8%	496.260
Standard Mail						
Flats	80.9%	527.940	85.1%	375.879	81.6%	459.653
Parcels [24]	85.5%	48.959	67.9%	35.216	66.3%	34.573
Package Services						
[Single-Piece] Parcel Post[25]	92.2%	65.921	93.1%	22.849	N/A	N/A
Media and Library Mail	85.3%	55.524	85.0%	55.827	93.8%	20.307
Special Services						
Stamp Fulfillment Services	59.3%	2.268	80.8%	0.971	77.5%	0.955
Total:		**1,473.170**		**1,109.235**		**1,104.679**

Data Sources: FY 2012 ACD, Appendix D, Table D-1 at 206 and Table VII at 136; FY 2013 PRC Financial Report, Revised April 10, 2014 at 43-44; 2013 ACD at 41-59; Docket No. ACR 2013, Library Reference PRC-ACR2013-LR5; 2014 ACR, USPS-FY14-1, file “Public_FY14CRA.xlsx”.

A. First-Class Mail Cost Coverage

In FY 2014, all First-Class Mail products covered their attributable cost, except Inbound Single-Piece First-Class Mail International. This is an improvement from FY

[23] Current product, Inbound Letter Post, was formerly known as Inbound Single-Piece First-Class Mail International.

[24] In FY 2012, the Market Dominant product Standard Mail Not Flat-Machinables and Parcels was renamed Standard Parcels and was divided into two categories. One of those two categories was moved to the competitive product list on January 22, 2012. *See* FY 2012 ACD at 18.

[25] On January 27, 2013 Single Piece Parcel Post was removed from the market dominant product list, and almost identical product (Standard Post) was added to the competitive product list. Alaska Bypass Service that used to be a subcategory of the old Single-Piece Parcel Post product was added to the market dominant product list as a Package Services product offering. 2013 ACD at 56.

2013 when another product, First-Class Mail Parcels, also failed to cover its attributable costs.[26]

First-Class Mail cost coverage continued to increase, and even at a faster pace than in the previous years. In FY 2014, First-Class Mail cost coverage increased by 11 percent (from 210.4 percent to 221.4 percent), while in FY 2013 and in FY2012 it increased by 7.5 percent and 3.9 percent, respectively.[27] In FY 2014, First-Class Mail volume continued to decrease, while unit contribution continued to increase. Total volume decreased from 66.616 billion pieces to 64.294 billion pieces (by 3.5 percent), slightly less than in FY 2013, when it decreased by 4.3 percent. Unit contribution increased from 23.18 cents to 25.08 cents (by 8.2 percent), which is more than in the previous year when it increased by 4.6 percent.[28] It is easy to see that First-Class Mail, as a class, has very strong cost coverage and provides a significant contribution to institutional costs ($16.13 billion or 71.18 percent of the overall contribution provided by Market Dominant Mail products).[29]

1. Parcels

While in FY 2013, two products within First-Class Mail were underwater, Parcels and Inbound Letter Post. In FY 2014, the cost coverage for First-Class Mail Parcels exceeded 100 percent. The cost coverage for First-Class Parcels has increased from 99.5 percent to 108.9 percent, revenue per piece has increased by 20 cents (from $2.34 to $2.54), and the cost per piece decreased by 3 cents (from $2.36 to $2.33).[30] The Postal Service claims the observed increase in revenue per piece and decrease in cost

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[26] USPS-FY14-1, file “Public_FY14CRA”, tab ‘Cost1’ and 2013 ACD at 41.

[27] *Id*., FY 2013 PRC Financial Analysis Report at 43, FY 2012 ACD at 81 and FY 2011 ACD at 96.

[28] USPS-FY14-1 and FY 2013 PRC Financial Analysis 2013 at 43.

[29] Calculated based on data from USPS-FY14-1.

[30] USPS-FY14-1, file “Public_FY14CRA”, tab ‘Cost1’ and FY 2013 PRC Financial Analysis Report, Attachment A at 43.

per piece is a result of the price increase for First-Class Mail Parcels implemented in January 26, 2014.[31] The Public Representative agrees the measure appeared effective, yet believes it would be appropriate for the Postal Service to continue monitoring cost coverage for First-Class Mail Parcels.

2. Inbound Single-Piece

In FY 2014, Inbound Letter Post still failed to cover its attributable costs.[32] Discussing the failure of Inbound Letter Post to cover its attributable costs, the Postal Service emphasizes "the product's unique pricing regime," and the inability to "independently determine the prices for delivering foreign origin mail."[33] Given the pricing regime for inbound single-piece, the Public Representative does not believe First-Class Mail rates were out of compliance in FY 2014 with provisions of Chapter 36 of title 39.

B. Standard Mail Cost Coverage

In FY 2014, the Standard Mail class continued to be the largest mail class by volume, representing more than half (52.9 percent) of all Market Dominant mail volume and 30.7 percent of the total Market Dominant products' contribution to institutional costs.[34] While in FY 2014, Standard Mail volumes were consistent with those of FY 2013,[35] the cost coverage for Standard Mail continued to increase, moving up by 7

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[31] 2014 ACR at 8. In January 2014, the Postal Service increased the price for First-Class Mail Parcels by approximately 11 percent. In the 2013 ACD, the Commission shared the Postal Service's expectations that after the price increase, the cost coverage for First-Class Mail parcels would be above 100 percent. 2013 ACD at 41 and Docket No. R2013-10, Order No. 1890, November 21, 2013 at 38.

[32] 2014 ACR at 7. In USPS-FY14-1, the Postal Service still refers to Inbound Letter Post as to Inbound Single-Piece First-Class Mail International.

[33] 2014 ACR at 8.

[34] Calculated using data from USPS-FY14-1.

[35] In FY 2014, for Standard Mail, its shares in Market Dominant Mail volumes and Market Dominant products' contribution to institutional costs just slightly increased (by less than 1 percent). In FY

percent (from 160 percent to 166 percent).[36] The overall dollar contribution of Standard Mail to institutional costs was $7.0 billion (compared to $16.1 billion for First-Class Mail).[37]

In FY2014, volumes for the majority of Standard Mail products declined. Following the previous years' trends, volumes for Standard Mail Flats and for Standard Mail Parcels continued to decline at a relatively high pace (by 9.2 percent and 8.5 percent, respectively). Mail volumes for Every Door Direct Mail Retail, a comparatively new product that was introduced in FY 2013,[38] have also declined by 8.7 percent. Standard Mail Negotiated Service Agreement (NSA) mail volume that increased by almost 4.5 times in FY 2012, and was stable in FY 2013, substantially decreased in FY 2014 (by more than 45 percent). Although it is too early to make any solid conclusions, the observations made in the last two years might indicate that the market for NSAs is saturated. Mail volumes for only two Standard Mail products have increased - for High Density and Saturation Letters (by 4.5 percent) and for Letters (by 1.7 percent). The increase in mail volumes for these two products kept the overall FY 2014 Standard Mail volumes at almost the same level as in FY 2013. The mail volumes for the class decreased by 0.7 percent.[39]

Cost coverage per piece for Standard Mail NSAs is very strong, although it decreased from 231.1 percent in FY 2013 to 188.4 percent in FY 2014. For Standard

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2014, Standard Mail volumes declined by 0.7 percent, and in FY 2013 they increased by 1 percent. However, in FY 2012, the decline for Standard Mail was more significant - 5.8 percent. *Id* and FY 2013 PRC Financial Analysis Report at 43; Docket No. ACR 2012, PRC-ACR2012-LR1, March 28, 2013.

[36] In FY 2013, Standard Mail cost coverage experienced even higher increase (by 10 percent), while in two previous years the increase was mild (1.4 percent in FY 2012 and 2.6 percent in FY 2011). *Id.*

[37] USPS-FY14-1.

[38] On September 7, 2012, the Commission approved the Postal Service request to add this product to the market dominant product list. Docket No. MC2012-31, Order Approving Addition of Postal Services to the Mail Classification Schedule Product List, September 7, 2012 (Order No. 1460).

[39] USPS-FY14-1 and FY 2013 PRC Financial Analysis Report at 43; Docket No. ACR 2012, PRC-ACR2012-LR1, March 28, 2013.

Mail NSA, per piece contribution to institutional costs decreased from 11.78 cents to 9.85 cents. Every Door Direct Mail Retail cost coverage increased by almost 20 percent - from 359.9 percent to 379.1, and per piece contribution increased from 10.25 cents to 12.32 cents. However, due to a very small share of Standard Mail NSA and Every Direct Mail Retail volumes in overall Standard Mail volumes (the share of these two products constitutes only 1.1 percent), such high cost coverage could not have had any visible effect on overall Standard Mail class cost coverage. *Id.*

The majority of Standard Mail products (except Standard Flats and Standard Parcels) have over 100 percent cost coverage. In FY 2014, Standard Flats and Standard Parcels provided negative contribution to the institutional costs which raises a concern about their compliance with Section 3622(c)(2) of title 39, as discussed below.

1. Standard Mail Parcels

For Standard Mail Parcels, its unit institutional burden continued to increase (from 48.93 cents in FY 2013 to 52.51 cents in FY2014), and cost coverage decreased (from 67.9 percent in FY 2013 to 66.3 percent in FY 2014).[40] The Postal Service explains such low cost coverage for Standard Mail Parcels is due to the transfer of a large portion of Standard Mail Parcels to the competitive product list that occurred in January 2012.[41] The Public Representative agrees that due to the transfer, a larger portion of nonprofit mail accounts for the decline in cost coverage. However, two years have passed since the date of the transfer, providing a sufficient period of time for the Postal Service to "develop measures to foster an increase in the product cost

[40] *Id.* The Postal Service, however, claims that the cost coverage for Standard Mail Parcels has increased since last fiscal year (from 64.3 percent to 66.3 percent). 2014 ACR at 18. The reason for such difference is that when referring to FY 2013 numbers, the Public Representative uses the FY 2013 PRC Financial Report but the Postal Service uses the 2013 ACR. Nevertheless, the cost coverage for Standard Mail Parcels is significantly below 100 percent.

[41] 2014 ACR at 18.

coverage."[42] The Commission has consistently encouraged the Postal Service to reduce Standard Mail Parcels costs in order "to close the cost coverage gap."[43] In FY 2013, following the substantial decrease in volume, Standard Mail Parcels total attributable costs fell to less than one third of FY 2012 costs. While in FY 2012, the share of Standard Mail Parcels of the total costs for Standard Mail was 3 percent, in FY 2013 it fell to only one percent and stayed consistent in FY 2014.[44] At the same time, unit costs for Standard Mail Parcels continued to increase, from $1.52 in FY 2013 to $1.58 in FY2014 (or 3.9 percent). *The Public Representative believes that the Postal Service should continue taking serious measures to improve cost coverage for Standard Mail Parcels, "by proposing above average price increases in future price adjustments," as stated in 2014 ACR.*[45]

2. Standard Mail Flats

As for Standard Mail Flats, its volumes declined by 9.2 percent in FY 2014, at a faster pace than in FY 2013 (when the decline was 6.3 percent), but at a slower pace than in FY 2012 (when the decline was 12.5 percent). Cost coverage also declined significantly, from 85.1 percent in FY 2013 to 81.6 percent in FY 2014.[46] This decrease in cost coverage breaks the hope for improvement in Standard Mail Flats cost coverage which was inspired by the two-year modest increase in cost coverage (by 4 percent in FY 2013 and by 1.4 percent in FY 2012).[47] Contribution of Standard Mail Flats to the institutional cost burden also increased. Per piece institutional cost burden increased by

[42] Docket No. ACR2012, Public Representative Initial Comments at 29.

[43] FY 2012 ACD at 117.

[44] USPS-FY14-1; FY 2013 PRC Financial Report at 43; 2012 ACD at 106 and 2011 ACD at 112.

[45] 2014 ACR at 19.

[46] USPS-FY1411; FY 2013 PRC Financial Report at 43; FY 2012 ACD at 106 and FY 2011 ACD at 112.

[47] In FY 2013, its cost coverage increased from 80.9 percent to 85.1 percent, and in FY 2012 the cost coverage increased from 79.5 to 80.9 percent. *Id.*

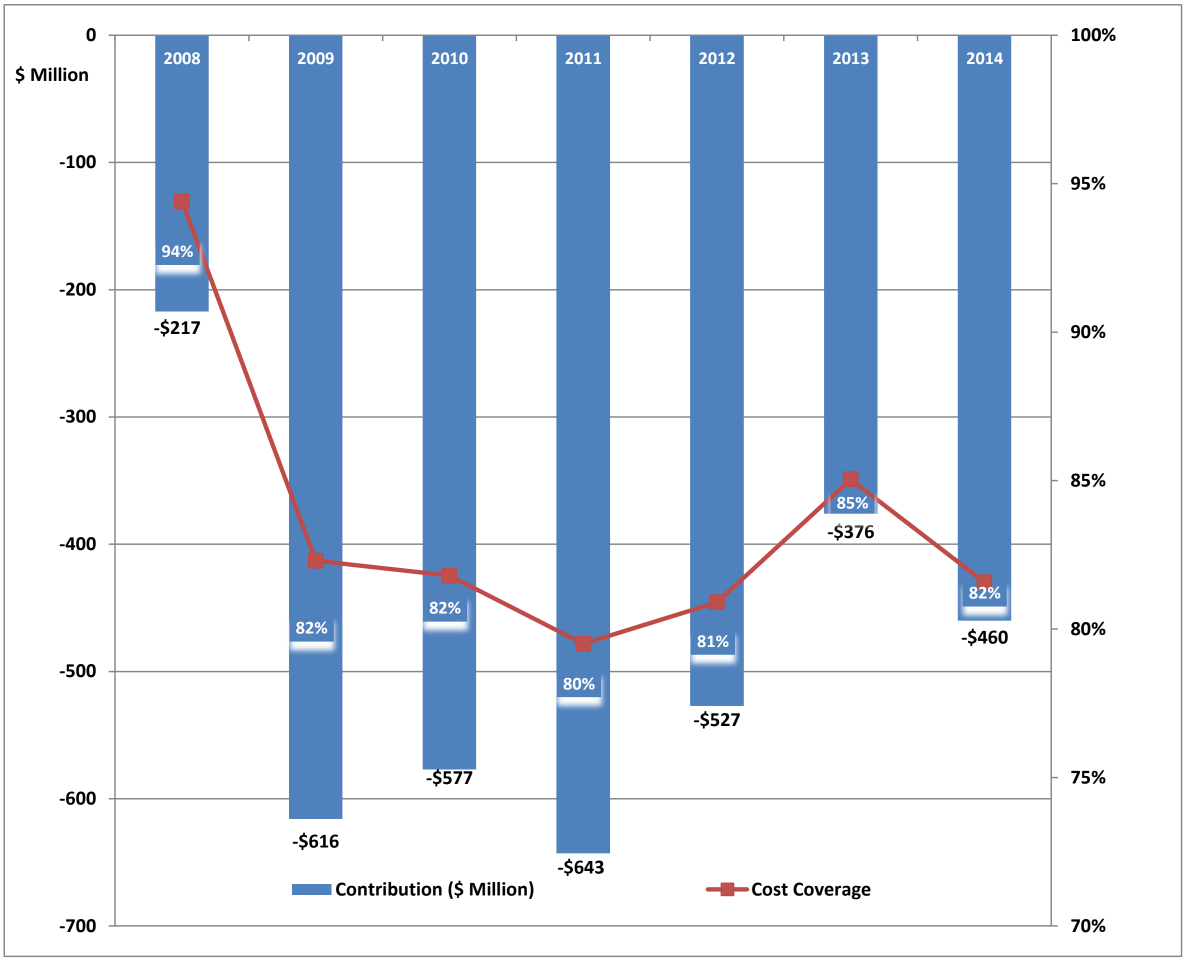
almost 34 percent (from a loss of 6.8 cents to a loss of 9.1 cents), bringing the institutional cost burden to above the FY 2012 level, when the contribution to the institutional cost burden was 8.9 cents. The overall contribution of Standard Mail Flats to the institutional cost burden of the Postal Service increased from $376 million to $460 million*. Id. See* Chart IV-1.

The Public Representative's Initial Comments on the 2013 ACR applauded the significant improvement (in comparison with the previous year) in unit contribution as well as the decrease in the institutional burden. However, in FY 2014, the financial performance of Standard Mail Flats is much less promising. As directed in the FY 2010 ACD, and specifically stated in Order No. 2313, the Commission requested a description of both "operational changes" and "costing methodology or measurement improvements" aimed to reduce costs for Standard Mail Flats in FY 2014.[48] On January 15, 2015, the Postal Service provided partial supplemental information in response to the Commission Order.[49] The Postal Service clearly states that "it is difficult to predict when the shortfall for Standard Mail Flats will be phased out", and "it is unlikely that the shortfall will be eliminated by the end of 2016." The Postal Service ties the possibility of ending the Standard Mail Flats shortfall with "a comprehensive review of the present regulatory system to be commenced by the Commission." *Id.* at 3*.*

[48] Order No. 2313, Notice of Postal Service's Filing of Annual Compliance Report and Request for Public Comments, December 31, 2014 at 4.

[49] Notice of the United States Postal Service of Filing Partial Supplemental Information in Response to Order No. 2313, January 15, 2015 (2014 ACR, Supplemental Information).

Chart IV-1
Contribution and Cost Coverage for Standard Mail Flats (FY2008-FY2014)



Data Sources: USPS-FY14-1; FY 2013 PRC Financial Report at 43; FY2012 ACD at 108. In her calculations, the Public Representative refers to the previous years' ACD data. The Postal Service while discussing Standard Flats cost coverage often referred to ACR data *(See* 2014 ACR, Supplemental Information, Attachment A at 5). Changing the sources, however, would not change the conclusions.

3. Elasticity

The Public Representative strongly believes that in order to improve cost coverage for Standard Mail Flats the Postal Service should continue with a "special remedy" that provides for above CPI price increases for Standard Mail Flats. However, as the Public Representative noted before, lack of knowledge about the elasticity for

Standard Mail Flats creates additional problems in setting prices for the product. In the FY 2012 ACD, the Commission directed the Postal Service to derive own-price elasticities estimates by product, and in the 2013 ACD, encouraged the Postal Service to "continue its efforts to derive elasticity estimates for Standard Mail products."[50] In the Demand Models filed in January 2015, the Postal Service still provides only aggregated elasticity estimates for Standard Regular Mail products.[51] As the Commission noted in the FY 2012 ACD, own-price elasticity estimates derived for each of the different Standard Mail products would "provide for a more realistic assessment of the impact of price changes on contribution."[52] As Chart IV-2 illustrates, Standard Mail Regular products are consistently becoming more elastic over at least the last four years. However, the elasticity for Standard Mail Flats is still unknown, and is assumed to be the same elasticity as for overall Standard Mail Regular class and other Standard Mail Regular products. As a result, the Postal Service is establishing prices for Standard Mail Flats for the incoming financial year without taking into consideration the actual price elasticity for the product. As the Public Representative pointed out in the previous years' ACR comments, the Postal Service should "employ demand-based pricing policy when setting prices for Standard Mail products.[53] The Public Representative strongly believes that implementing such a policy should ensure the greater product contribution to institutional costs, and result in a positive effect from such rate increases on the general public and other mail users in accordance with 39 U.S.C. § 3622(c)(3).

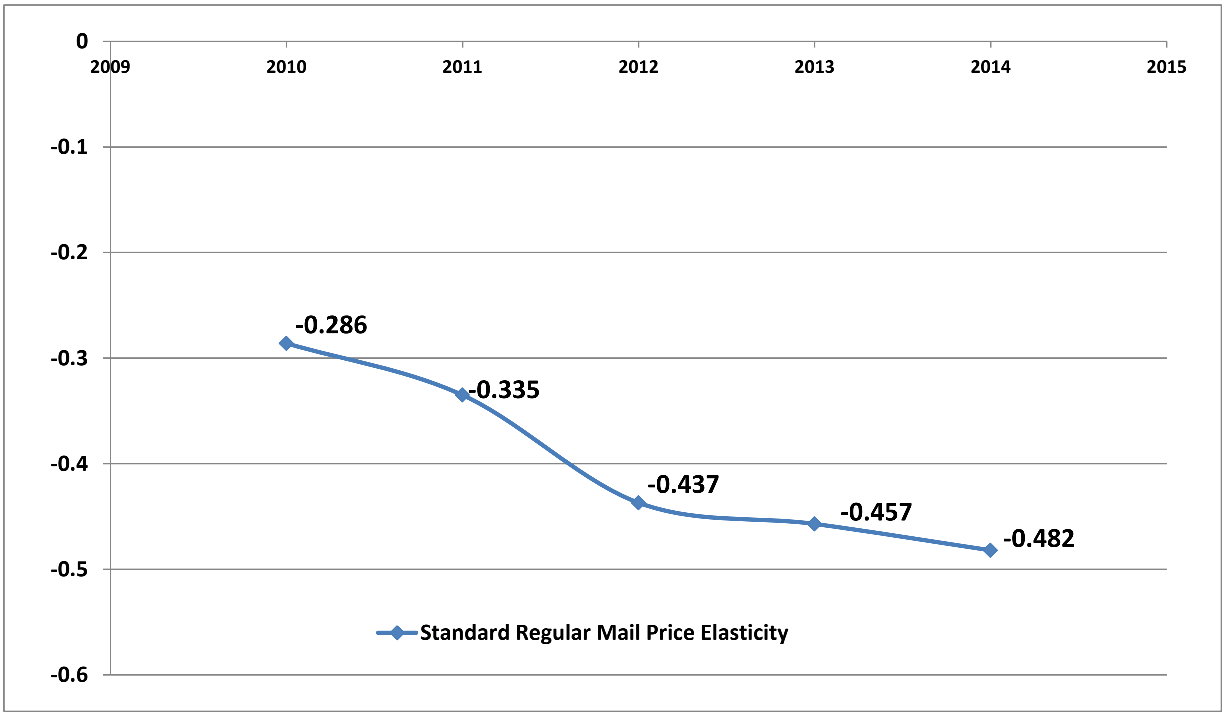
[50] 2013 ACD at 55 and FY 2012 ACD at 116.

[51] Market Dominant Products, FY 2014: USPS Demand Equation Estimation & Volume Forecasting Methodology, January 20, 2015.

[52] FY 2012 ACD at 116.

[53] Docket No. ACR2012, Public Representative Reply Comments at 22 and Docket No. ACR2013, Public Representative Comments at 30.

Chart IV-2
C FY2010-FY2014 Own-Price Elasticities of Demand for Standard Regular Mail



Data Sources: Market Dominant Products, FY 2014: USPS Demand Equation Estimation & Volume Forecasting Methodology, January 20, 2015; Letter from Daniel J. Foucheaux, Jr., USPS to Shoshana M. Grove, Secretary, Postal Regulatory Commission, January 22, 2014; Demand Analyses FY 2012 – Market Dominant, January 22, 2013; Demand Analyses and Volume Forecast Materials for Market Dominant Products, January 20, 2012; Market Dominant Products: USPS Demand Equation Estimation and Volume Forecasting Methodologies, January 20, 2011.

C. Periodicals Cost Coverage

In FY 2014, cost coverage for Periodicals was 76.16 percent, which is almost the same as in FY 2013. As illustrated by Chart IV-3 below, Periodicals have consistently failed to cover their attributable costs since enactment of the PAEA in 2006. From FY2008 to FY2014, Periodicals volume decreased from 8,795 million to 6,045 million (with the annual rate of volume decline ranging between 2.2 and 8.6 percent). As shown in Chart IV-3, the contribution to the institutional burden continued to decrease (down from $521 million in FY2013 to $509 million in FY 2014).[54] While cost coverage for Periodicals did not change very much this year, cost coverage for In-County product increased (by 1.8 percent) and cost coverage for Outside County product slightly decreased (by 0.3 cent).[55] In FY 2014, unit cost was 35.3 cents, approximately 1 cent higher than in FY 2013. *Id.*

In the 2013 ACD, the Commission reminded the Postal Service to "continue the work of Periodicals Mail Study" where "the Postal Service detailed projects that would improve Periodicals cost coverage" and "discussed the pricing strategies it may choose to pursue in the future."[56] While FY 2013 brought improvement in both unit costs and cost coverage for Periodicals, in FY 2014 these financial results were mostly stable. In response to FY2013 ACD directives and following Commission Order No. 2313, the Postal Service provided some information showing "the progress made in improving Periodicals cost coverage."[57] The Postal Service admits that it "has not taken steps to date to change the Periodicals classification" as recommended by the Periodicals Mail Study, but "increased the Periodicals rate elements across the board" in recent price adjustments cases (*i.e*. Docket Nos. R2013-10 and R2013-11).[58] Taking into account the consistent failure of Periodicals to cover attributable costs, the Public Representative strongly advises the Postal Service expend greater efforts to more actively implement cost savings and productivity improvement measures.

[54] *Id.,* and FY 2012 ACD at 93.

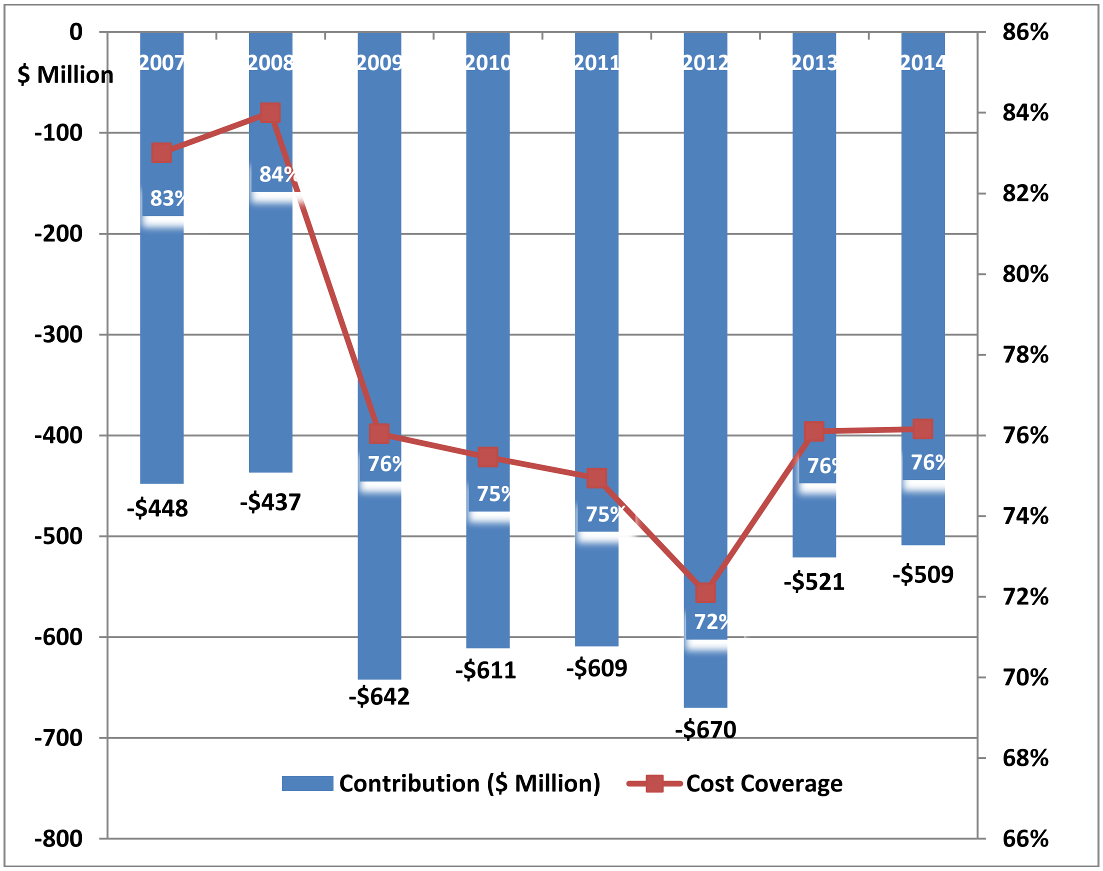
[55] USPS-FY14-1; FY2013 PRC Financial Report at 43.

[56] 2013 ACD at 45.

[57] 2014 ACR, Supplemental Information.

[58] *Id* at 12.

Chart IV-3
Contribution and Cost Coverage for Periodicals (FY2007 – FY2014)



Source: FY 2012 ACD at 93; PRC Financial Analysis 2013 at 43 and USPS-FY14-1.

D. Package Services Cost Coverage.

In FY 2014, cost coverage for Package Services overall was 112.5 percent, which is 10.9 percent more than in FY 2013. This is a big improvement from last year when the cost coverage was just slightly above 100 percent and, especially from FY 2012, when Package Services failed to cover their attributable costs.[59] In FY 2014, cost

[59] In FY 2013, cost coverage for Package Services was 101.6 percent, and in FY 2012, it was 97.7 percent. *See,* USPS-FY14-1 and FY2013 PRC Financial Report at 43.

per piece continued to decrease substantially - from $1.96 in FY 2013 to $1.35 in FY 2014 (by 31 percent).[60] Revenue per piece also decreased, although at a little slower rate, from $1.99 cents to $1.52 cents (by 23 percent).[61] In FY 2014, one Package Services product (Media Mail/Library Mail) still failed to cover its attributable costs. Cost coverage for the other four Package Services products was in the range between 108.4 percent and 202.1 percent.[62]

FY 2014 was the eighth consecutive year when Media Mail/Library Mail did not cover its attributable costs.[63] In the 2013 ACD, taking into account the consistent failure of the product to cover attributable costs, the Commission agreed with the Public Representative that Media Mail/Library Mail required special attention.[64] In FY 2014, cost coverage for Media Mail/Library Mail increased by 8.1 percent reaching 93.1 percent.[65] This improvement in cost coverage corresponds to the Postal Service's goal of 94.3 percent that was stated in Docket No. R2013.[66] The Public Representative supports the Postal Service's intention to "continue improving the cost coverage of Media Mail/Library Mail over time through above average price increases."[67]

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[60] In FY 2013, cost per piece decreased from $2.54 in FY 2012 to $1.96 (22.8 percent). *See,* FY2013 PRC Financial Report at 43 and FY 2012 ACD at 128.

[61] In FY 2013 revenue per piece decreased from $2.49 cents to $1.99 cents (20.1 percent). *Id* and USPS-FY14-1.

[62] USPS-FY13-1 and FY 2012 ACD at 128.

[63] USPS-FY14-1 and FY2013 ACD at 57.

[64] 2013 ACD at 58 and Docket No.ACR2013, Public Representative Comments, January 31, 2014 at 34.

[65] USPS-FY13-1 and FY 2012 ACD at 128.

[66] The Postal Service planned to reach this goal by putting into effect the exigent prices proposed in the referenced docket. *See* Docket No. R2013-11, Statement of Stephen Nickerson on Behalf of the United States Postal Service. (Revised on 11/22/13), Attachment 25 (file NickStatmnt.Attach.Rev.1.22.13.xls, tab "Attach 25 2014 Cont 1 AR 26").

[67] 2014 ACR at 33.

V. WORKSHARING

Statue 39 U.S.C. § 3622(e)(2) directs the Commission to ensure workshare discounts do not exceed the costs avoided by the Postal Service as a result of the worksharing activity. The Public Representative stated in Docket No. ACR 2013, "[i]n every [prior] ACR, the Postal Service has reported 20 or more, non-ECSI passthroughs greater than 100 percent." Comments of the Public Representative, Docket No. ACR 2012 at 40. It reported 21 such passthrough in ACR 2013, and now reports 33 in ACR 2014. Table VI-1 lists the 33 non-ECSI products that received discounts above the costs they avoided in ACR 2014. The Postal Service does not justify 13, approximately 40 percent, of these discounts by not referring to any of the exemptions listed in 39 U.S.C. § 3622(e)(2)(A)(B) or (D). As was the case last year, it relies upon the explanation that there is a mismatch between market dominant price adjustments and the filing of the ACR. *See* ACR 2013 at 6.

Table V-1
Non-ECSI Passthroughs Above 100 Percent

Mail Product[1,2]	Passthrough
First Class Mail	
Single Piece Letters, QBRM (Barcoding)	106.3
Automation AADC Letters (Barcoding & Presorting)	145.0
Automation Mixed AADC Cards (Barcoding & Presorting)	136.4
Automation AADC Cards (Barcoding & Presorting)	144.4
Automation 5-digit Cards (Barcoding & Presorting)	107.7
Automation ADC Flats (Barcoding & Presorting)	113.8
Automation 3-digit Flats (Barcoding & Presorting)	142.5
Automation 5-digit Flats (Barcoding & Presorting)	120.4
Standard Mail	
Automation AADC Letters (Presorting, Commercial and Non-Profit)	137.7
Automation Mixed AADC Letters (Pre-barcoding, Commercial and Non-Profit)	800.0
Nonautomation AADC Machinable Letters (Presorting, Commercial and Non-Profit)	112.5
Nonautomation ADC Nonmachinable Letters (Presorting, Commercial and Non-	118.9
Nonautomation 3-digit Nonmachinable Letters (Presorting, Commercial and Non-	119.2
Nonautomation 5-digit Nonmachinable Letters (Presorting, Commercial and Non-	143.1
Automation 3-digit Flats (Presorting, Commercial)	123.8
Automation 5-digit Flats (Presorting, Commercial)	101.2
Automation Mixed ADC Flats (Prebarcoding, Commercial and Non-Profit)	233.3
Nonautomation ADC Flats (Presorting, Commercial and Non-Profit)	110.9
Nonautomation 3-digit Flats (Presorting, Commercial and Non-Profit)	114.9
Nonautomation 5-digit Flats (Presorting, Commercial and Non-Profit)	133.3
Automation 5-digit Flats (Presorting, Non-Profit)	101.2
Nonautomation 3-digit Flats(Presorting, Non-Profit)	114.9
NDC Irregular Parcels (Presorting, Commercial and Non-Profit)	139.7
Mixed NDC Machinable Barcoded Parcels (Pre-barcoding, Commercial and Non-	181.1
Mixed NDC Irregular Barcoded Parcels (Pre-barcoding, Commercial and Non-Profit)	181.1
NDC Marketing Parcels (Presorting, Commercial and Non-Profit)	124.8
Mixed NDC Barcoded Marketing Parcels (Prebarcoding, Commercial and Non-	181.1
Package Services Mail	
Basic, Carrier Route DNDC Flats (Dropship)	121.1
Basic, Carrier Route DSCF Flats (Dropship)	105.4
Basic, Carrier Route DDU Flats (Dropship)	101.9
Basic, Carrier Route DNDC Parcels / IPPs (Dropship)	121.1
Basic, Carrier Route DSCF Parcels / IPPs (Dropship)	105.8
Basic, Carrier Route DDU Parcels / IPPs (Dropship)	101.9

Source: USPS-FY14-3, File: FY14.3 Worksharing Discount Tables.xlsx

[1] Type of Worksharing is in parentheses

[2] As corrected by Response to Response.ChIR1.1st.Set, No. 12

A. First-Class Mail

Table V-2 shows the eight First Class Mail worksharing discounts with passthroughs above 100 percent. The Postal Service does not refer to any statutory exemption to justify not complying with 39 U.S.C. § 3622(e)(2).

Table V-2
First Class Products With Passthrough Above 100 Percent

Mail Product	Passthrough
First Class Mail	
Single Piece Letters, QBRM (Barcoding)	106.3
Automation AADC Letters (Barcoding & Presorting)	145.0
Automation Mixed AADC Cards (Barcoding & Presorting)	136.4
Automation AADC Cards (Barcoding & Presorting)	144.4
Automation 5-digit Cards (Barcoding & Presorting)	107.7
Automation ADC Flats (Barcoding & Presorting)	113.8
Automation 3-digit Flats (Barcoding & Presorting)	142.5
Automation 5-digit Flats (Barcoding & Presorting)	120.4

Source: Id.

B. Standard Mail

Table V-3 shows the 19 Standard Mail worksharing discounts with passthroughs above 100 percent. The Postal Service does not include four products with passthroughs above 100 percent in its filing, but which appear in USPS-FY14-3, File: FY14.3 Worksharing Discount Tables.xlsx: Non-Profit Automation 5-digit Flats, Non-Profit Nonautomation 3-digit Flats, Mixed NDC Irregular Barcoded Parcels, and Mixed NDC Barcoded Marketing Parcels.

Table V-3
Standard Products With Passthroughs Above 100 Percent

Mail Product	Passthrough
Standard Mail	
Automation AADC Letters (Presorting, Commercial and Non-Profit)	137.7
Automation Mixed AADC Letters (Pre-barcoding, Commercial and Non-Profit)	800.0
Nonautomation AADC Machinable Letters (Presorting, Commercial and Non-Profit)	112.5
Nonautomation ADC Nonmachinable Letters (Presorting, Commercial and Non-Profit)	118.9
Nonautomation 3-digit Nonmachinable Letters (Presorting, Commercial and Non-Profit)	119.2
Nonautomation 5-digit Nonmachinable Letters (Presorting, Commercial and Non-Profit)	143.1
Automation 3-digit Flats (Presorting, Commercial)	123.8
Automation 5-digit Flats (Presorting, Commercial)	101.2
Automation Mixed ADC Flats (Prebarcoding, Commercial and Non-Profit)	233.3
Nonautomation ADC Flats (Presorting, Commercial and Non-Profit)	110.9
Nonautomation 3-digit Flats (Presorting, Commercial and Non-Profit)	114.9
Nonautomation 5-digit Flats (Presorting, Commercial and Non-Profit)	133.3
Automation 5-digit Flats (Presorting, Non-Profit)	101.2
Nonautomation 3-digit Flats(Presorting, Non-Profit)	114.9
NDC Irregular Parcels (Presorting, Commercial and Non-Profit)	139.7
Mixed NDC Machinable Barcoded Parcels (Pre-barcoding, Commercial and NonProfit)	181.1
Mixed NDC Irregular Barcoded Parcels (Pre-barcoding, Commercial and Non-Profit)	181.1
NDC Marketing Parcels (Presorting, Commercial and Non-Profit)	124.8
Mixed NDC Barcoded Marketing Parcels (Prebarcoding, Commercial and Non-Profit)	181.1

Source: Id.

Of the 23 non-ECSI worksharing discounts the Postal Service discusses, it does not refer to any statutory exemption for 10 of the discounts.

1. Section 3622(e)(2)(D) Exemptions

Section 3622(e)(2)(D) exempts the Postal Service from keeping the discount less than or equal to the costs avoided by a worksharing discount if reducing or eliminating the discount would impede the efficient operation of the Postal Service. The Postal Service includes the prebarcoding discounts for Automation Mixed AADC Letters (138 percent), Automation Mixed ADC Flats (233 percent), and Mixed Network Distribution Center (NDC) Machinable Barcoded Parcels (181percent) as products that qualify for exemptions from the requirement that passthroughs exceed 100 percent, pursuant to Section 3622(e)(2)(D). With the exception of Automation Mixed AADC Letters, the prebarcoding passthrough is approximately the same this year as last year. The Public Representative would expect successful barcoding discounts to be reduced each year, and is not convinced a further reduction of the discount would impede the efficient operation of the Postal Service.

2. Section 3622(e)(2)(B) Exemptions

Section 3622(e)(2)(B) exempts the Postal Service from § 3622(e)(2) if the amount of the discount above costs avoided is necessary to mitigate rate shock and it will be phased out over time. The Postal Service relies upon § 3622 (e)(2)(B) to justify passthroughs above 100 percent for Nonautomation 5-Digit Nonmachinable Letters, Nonautomation 5-Digit Flats, NDC Irregular Parcels, and NDC Marketing Parcels. For each product, it refers to the entire rate increase that would occur if the discount were reduced all the way down to equal the costs avoided by the worksharing activity. With the exception of Nonautomation 5-Digit Nonmachinable Letters, where making the discount equal to its avoided costs would increase prices more than 20 percent, according to the Postal Service, even a potential reduction of approximately seven percent would cause rate shock. *See* ACR 2013, 23-28.

The PAEA does not define the magnitude of an adjustment constituting rate shock, but a plain reading of the statute would lead one to conclude that qualifying for the rate shock exemption requires the Postal Service to show that *any* reduction or a reasonable reduction of the discount would not mitigate rate shock, since the statute states that the workshare discount may not exceed the costs avoided unless the "amount of the discount above costs avoided (i) is necessary to mitigate rate shock." 39 U.S.C. 3622(e)((2)(B). Stated differently, in order for a worksharing discount greater than its avoided costs to qualify for this exemption, the Postal Service must show that even a modest price increase would not avoid rate shock. To test whether a modest reduction in the discount could notably reduce an excessive passthrough without impeding the mitigation of rate shock, the Public Representative explored reducing the discount for NDC Marketing Parcels by $0.002 (2 cents), thus reducing the rate from $0.392 to $0.372, which reduces the passthrough from 125 percent to 118 percent, a seven percent passthrough reduction. The Public Representative estimates this would require an increase in the price of NDC 1marketing parcels by approximately 2 percent.[68] The Public Representative concludes that the Postal Service has not met the burden of proof required to utilize the § 3622(e)(2)(B) exemption.

C. BPM Parcels

All six of the BPM Parcel products with passthroughs above 100 percent are listed at the bottom of Table V-1, above. The Postal Service does not offer a statutory exemption to justify them.

D. Suggested Method to Reduce Excessive Passthroughs

The Postal Service reported 26 passthroughs above 100 percent in ACR 2014, and did not justify 13 of these discounts by referring to any of the statutory exceptions listed in 39 U.S.C. 3622(e)(2)(A) through (D). As was the case last year, only to a greater extent, the Postal Service relies upon a mismatch between the timing of market dominant price adjustments and the filing of the ACR to excuse itself from providing a statutory justification for many passthroughs above 100 percent.

[68] The Public Representative assumed the existing price of an NDC marketing parcel is the price that would make a price increase of $0.078 (the increase needed to make the discount equal to avoided costs) equal to 7 percent (the rate shock the Postal states would occur if this price increase were to occur). This price is $1.11. A $.02 increase to $1.13 would result in a 2 percent price increase for NDC marketing parcels.

The Commission noted in the 2013 ACD that the Public Representative suggested projecting cost avoidances when setting market dominant prices and directed the Postal Service to “consider different approaches for setting workshare discounts, including projecting cost avoidances that may reduce the number of discounts with passthroughs above 100 percent resulting from the timing of price adjustments.” 2013 ACD, at 15. The Postal Service did not follow the Commission’s direction to consider different approaches for setting worksharing discounts.

This year, the Public Representative suggests a much simpler method of reducing the number of passthroughs above 100 percent. The Postal Service claims it often uses the subsequent market dominant price adjustment to move a passthrough much closer to 100 percent. Yet, it claims avoided costs change erratically when it comes time to submit the subsequent ACR. This results in a high number of passthroughs above 100 percent.

A simple method of reducing the impact of erratic cost avoidances would be to set prices in the market dominant price proceeding so that that discounts would be slightly less than they would be using the Postal Service’s current method of setting prices. To illustrate the concept, the Public Representative reduced existing discounts by one-half of one cent ($.005) for all discounts greater than 100 percent. The results are illustrated in Table V-4, below. It shows that the number of passthroughs above 100 percent would have declined from 33 to 25, a 32 percent decline. Even though discounts are uniformly reduced, there is substantial reduction in the number of passthroughs above 100 percent.

Table V-4
Impact of Reducing Discounts by One-Half Cent on Passthroughs Above 100 Percent

Mail Class	Discount	Avoided Cost	Passthrough	New Discount	New Passthrough	Change
FIRST CLASS MAIL						
Single Piece Letters	0.017	0.016	106.3%	0.01	75.0%	-31.3%
Automation AADC Letters	0.029	0.020	145.0%	0.02	120.0%	-25.0%
Automation Mixed AADC Cards	0.015	0.011	136.4%	0.01	90.9%	-45.5%
Automation AADC Cards	0.013	0.009	144.4%	0.01	88.9%	-55.6%
Automation 5-digit Cards	0.014	0.013	107.7%	0.01	69.2%	-38.5%
Automation ADC Flats	0.091	0.080	113.8%	0.09	107.5%	-6.3%
Automation 3-digit Flats	0.057	0.040	142.5%	0.05	130.0%	-12.5%
Automation 5-digit Flats	0.183	0.152	120.4%	0.18	117.1%	-3.3%
STANDARD MAIL						
Automation AADC Letters	0.02	0.02	137.5%	0.02	106.3%	-31.3%
Automation Mixed AADC Letters	0.01	0.00	800.0%	0.00	300.0%	-500.0%
Nonautomation AADC Machinable Letters	0.02	0.02	112.5%	0.01	81.3%	-31.3%
Nonautomation ADC Nonmachinable Letters	0.09	0.07	118.9%	0.08	112.2%	-6.8%
Nonautomation 3-digit Nonmachinable Letters	0.03	0.03	119.2%	0.03	100.0%	-19.2%
Nonautomation 5-digit Nonmachinable Letters	0.09	0.07	143.1%	0.09	135.4%	-7.7%
Automation 3-digit Flats	0.05	0.04	123.8%	0.05	111.9%	-11.9%
Automation 5-digit Flats	0.09	0.09	101.2%	0.08	95.3%	-5.9%
Automation Mixed ADC Flats	0.05	0.02	233.3%	0.04	209.5%	-23.8%
Nonautomation ADC Flats	0.05	0.05	110.9%	0.05	100.0%	-10.9%
Nonautomation 3-digit Flats	0.05	0.05	114.9%	0.05	104.3%	-10.6%
Nonautomation 5-digit Flats	0.07	0.05	133.3%	0.06	123.5%	-9.8%
Automation 5-digit Flats	0.09	0.09	101.2%	0.08	95.3%	-5.9%
Nonautomation 3-digit Flats	0.05	0.05	114.9%	0.05	104.3%	-10.6%
NDC Irregular Parcels	0.32	0.23	139.7%	0.32	137.5%	-2.2%
Mixed NDC Machinable Barcoded Parcels	0.07	0.04	181.1%	0.06	167.6%	-13.5%
Mixed NDC Irregular Barcoded Parcels	0.07	0.04	181.1%	0.06	167.6%	-13.5%
NDC Marketing Parcels	0.39	0.31	124.8%	0.39	123.2%	-1.6%
Mixed NDC Barcoded Marketing Parcels	0.07	0.04	181.1%	0.06	167.6%	-13.5%
BOUND PRINTED MATTER						
Basic, Carrier Route DNDC Flats	0.14	0.12	121.1%	0.14	116.8%	-4.3%

Basic, Carrier Route DSCF Flats	0.64	0.61	105.4%	0.64	104.6%	-0.8%
Basic, Carrier Route DDU Flats	0.79	0.78	101.9%	0.79	101.3%	-0.6%
Basic, Carrier Route DNDC Parcels/IPPs	0.14	0.12	121.1%	0.14	116.8%	-4.3%
Basic, Carrier Route DSCF Parcels/IPPs	0.64	0.61	105.8%	0.64	104.9%	-0.8%
Basic, Carrier Route DDU Parcels/IPPs	0.79	0.78	101.9%	0.79	101.3%	-0.6%

This method resulted in an average passthrough reduction of 29.1 percent. Thirty of the 33 discounts were reduced by 40 percent or less. This method moves nearly one-half the worksharing discounts into a more appropriate relation with their avoided costs simply by reducing discounts by one-half of one cent. It is difficult to imagine this would cause rate shock, and the structure of worksharing discounts would be better suited to their purpose. This year, the Postal Service has mitigated many of the excessive passthroughs by filing a proposal to increase prices during the Commission's consideration of the ACR. This proposal has the advantage of improving the structure of worksharing discounts in a simple way, even if the Postal Service does not file a proposal to increase prices during the Commission's consideration of an ACR.

VI. COMPETITIVE PRODUCTS

As mandated by 39 U.S.C. § 3633(a), the Commission's regulations in 39 C.F.R. § 3015.7 require that:

- Market dominant products do not subsidize competitive products (39 U.S.C. § 3633(a)(1));
- Each competitive product covers its attributable costs (39 U.S.C. § 3633(a)(2)); and
- Competitive products collectively cover an appropriate share of the Postal Service's institutional costs (39 U.S.C. § 3633(a)(3)).

In order to comply with 39 U.S.C. § 3633(a)(2) and 39 C.F.R. § 3015.7(b), each competitive product must cover its attributable costs. Two competitive international products failed to cover their attributable costs in FY 2014. These products are (1) International Money Transfer Service (Outbound), and (2) Inbound Air Parcel Post (at non-UPU rates). The Public Representative provides analysis of each product below, and urges the Commission to take action to ensure compliance with 39 U.S.C. § 3633(a)(2) and 39 C.F.R. § 3015.7(b).

The Public Representative finds the requirements of 39 U.S.C. § 3633(a)(1) and (3) have been satisfied in FY 2014, based on the information provided by the Postal Service. However, the Public Representative finds that two competitive products failed to cover their attributable costs in FY 2014. Below, the Public Representative determines market dominant products did not subsidize competitive products in 2014 and discusses concerns and recommendations regarding each of the two competitive products that failed to cover their costs.

A. Market Dominant Products Did Not Subsidize Competitive Products in FY 2014

In order to test for compliance with 39 U.S.C. § 3633(a)(1), the Commission applies the cross-subsidy test set forth in 39 C.F.R. § 3015.7(a). In Order No. 399, the Commission approved a hybrid incremental cost methodology for this test. Under that methodology, incremental costs for domestic competitive products, attributable costs for competitive international products, and group specific costs are aggregated to calculate the hybrid incremental cost total for competitive products.[69] The total hybrid incremental costs for competitive products must be lower than the total revenue for competitive products in order to satisfy 39 U.S.C. § 3633(a)(1).

In FY 2014, the total hybrid incremental costs for competitive products were $11.218 billion.[70] In FY 2014, the total revenue for competitive products (Competitive

[69] Docket No. RM2010-4, Order Accepting Analytical Principles Used in Periodic Reporting (Proposal Twenty-Two through Twenty-Five), January 27, 2012, at 4-5 (Order No. 399).

[70] 2014 ACR at 46.

Mail and Services) was $15.280 billion.[71] Since in FY 2014 the total competitive products revenue exceeds the total hybrid incremental costs for competitive products, the cross-subsidy test is satisfied and market dominant products did not subsidize competitive products during FY 2014.

However, questions still remain concerning the accuracy of the methodology employed to calculate the total hybrid incremental costs.[72] In Order No. 399, the Commission urged the Postal Service to "work to resolve problems in those areas where incremental costing cannot be currently implemented" and stated that "it is important to make progress toward a comprehensive measure of incremental costs." Order No. 399 at 5. *The Public Representative urges the Commission to reexamine the accuracy of the current hybrid costing methodology, and also investigate whether incremental costs could be developed for competitive international products for future ACRs.*

B. Two Competitive Products Failed to Cover Their Attributable Costs in FY 2014

There are five competitive product groups: (1) competitive domestic products with rates of general applicability; (2) competitive domestic products consisting of negotiated service agreements; (3) competitive international products with rates of general applicability;(4) competitive international products consisting of negotiated service agreements; and (5) competitive nonpostal services. Two competitive products failed to generate sufficient revenue to cover their costs, and they are both competitive international products with rates of general applicability: International Money Transfer Service (IMTS), and Inbound Air Parcel Post (at non-UPU rates). Below, the Public

[71] USPS-FY14-1, file Public_FY14CRA, tab "Cost3".

[72] Any correction in the hybrid methodology is not expected to result in the revenues exceeding attributable costs.

Representative discusses concerns and recommendations regarding the two non-compliant products.

1. International Money Transfer Service (IMTS)

Two products fall under the product of International Money Transfer Service: IMTS – Outbound and IMTS – Inbound. In FY 2010, the Commission approved the Postal Service's requests to classify IMTS – Outbound and IMTS – Inbound as separate competitive products.[73] This year the whole IMTS product (Inbound and Outbound) fails to cover its attributable costs and does not comply with section 3633(a)(2).

In the 2013 ACD, the Public Representative advised the Commission to consider whether rate increases may be necessary to bring the IMTS products into statutory compliance, yet in Order No. 1903, the Commission granted the Postal Service's request to leave IMTS rates unchanged in 2014.[74] The Commission addressed IMTS – Outbound's non-compliance with section 3633(a)(2), by ordering the Postal Service to report within 90 days of the 2013 ACD's issuance on the causes for the product's fiscal losses and submit a plan to improve its financial results such that revenues exceed attributable costs.[75] In response, the Postal Service stated FY 2013 losses were due to an unexpected and disproportionate decrease in unredeemed money orders or "escheatment" revenue that impacted the IMTS – Outbound product's results.[76]

In its 2014 ACR, the Postal Service supplied little to no information explaining the IMTS products' inability to cover costs. The Postal Service provided insufficient data and analysis to properly access the cause or remedy for IMTS – Outbound's non-

[73] Docket No. MC2009-19, Order Approving Addition of Postal Services to the Mail Classification Schedule Products Lists, January 13, 2010 (Order No. 391).

[74] Docket CP2014-5, Order Approving Changes in Rates of General Applicability for Competitive Products, December 12, 2013,(Order No. 1903) at 7.

[75] 2013 ACD at 86.

[76] Docket No. ACR2013, Responses of the United States Postal Service to Commission Requests for Additional Information in the FY 2013 Annual Compliance Determination, June 25, 2014. (2013 ACR Responses).

compliance, concluding solely that the product involves complex issues and following up with an assurance that the Postal Service will continue to seek product coverage improvement.[77] In its response to Chairman's Information Request No. 1, question 4, the Postal Service stated it expects opportunities for improvements to the international money order services to arise out of its focus on the domestic money order service.[78] Later, in response to CHIR No. 1, question 6b, the Postal Service stated it had mistakenly attributed IMTS – Inbound costs to IMTS – Outbound, revealing that the IMTS – Inbound product, too, failed to generate sufficient revenue to cover its attributable costs and was out of compliance with section 3633(a)(2).[79]

The Public Representative suggests the Commission require the Postal Service to submit robust and detailed data to account for a proper analysis of the IMTS product (Inbound and Outbound) i.e., laying out the basis of its failure to comply with section 3633(a)(2). In addition, the Public Representative renews its request that the Commission consider whether rate increases may be necessary to offset the current losses and bring the product into statutory compliance with section 3633(a)(2).

2. Inbound Air Parcel Post (at non-UPU rates)

Inbound Air Parcel Post (at non-UPU rates) consists of financial results for inbound air parcels for Royal Mail and collectively for several European postal operators that are parties to the Agreement for the Delivery of Day Certain Cross-Border Parcels (EPG Agreement). As in FY 2012 and FY 2013, FY 2014 booked revenues for Inbound Air Parcel Post (at non-UPU rates) failed to cover attributable costs and did not comply

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[77] 2014 ACR at 47.

[78] Docket ACR2014, Responses of The United States Postal Service to Questions 1-2, 3A-B, 3D, 4, 6, 7A-E, 8-9, and 11-21 of Chairman's Information Request No. 1 (First Response to CHIR No.1), Question 4b, January 16, 2015.

[79] *Id.,* Question 6 and USPS-FY14-NP30.

with 39 U.S.C. § 407(a)(2) and 3633(a)(2).[80] In FY 2013, the Public Representative echoed the Commission's concern that failure of the Inbound Air Parcel Post (at non-UPU rates) to cover its attributable costs meant that domestic mailers were subsidizing the entry of parcels in competition with private companies engaged in international delivery services.[81] The Commission directed the Postal Service to negotiate bilateral NSAs governing the entry of inbound air parcels with EPG-member countries and add such NSAs to the competitive product list.

Although the Royal Mail agreement did cover its costs in FY 2014, the product was unable to generate sufficient revenue to be compliant due to the agreements with EPG countries.[82] *The Public Representative reemphasizes its concern that domestic mailers are continuing, now for a fourth year in FY 2015, subsidize a product that is competing with private industry and advises the Commission to direct the Postal Service to push forward more aggressively with regards to the Inbound Air Parcel Post (at non-UPU rates) product.*

C. Competitive Products Collectively Covered an Appropriate Share of the Postal Service's Institutional Costs.

Competitive products must cover "an appropriate share of the institutional costs of the Postal Service." 39 U.S.C. 3633(a)(3). The Commission has determined "the appropriate share of the institutional costs to be recovered from competitive products collectively is, at a minimum, 5.5 percent of the Postal Service's total institutional costs." 39 CFR § 3015.7(c). USPS-FY14-1 shows the Postal Service's total institutional costs in FY 2014 were $34.187 billion, 5.5 percent of which would be approximately $1.880

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[80] USPS-FY14-NP2, folder "ACR Core Files", file 'Reports (Booked)'; 2013 ACD at 90 and FY 2012 ACD

[81] Docket No. ACR2013, Public Representative Comments, at 51.

[82] USPS-FY14-NP2, folder "ACM Costing", file 'NSA Summary (Booked)'

billion. Competitive products provided a contribution of $4.310 billion in FY 2014, and thereby satisfied the requirements of 39 U.S.C. 3633(a)(3) and 39 CFR § 3015.7(c).[83]

VII. CONCLUSION

The Public Representative respectively submits the foregoing comments for the Commission's consideration.

Respectfully submitted,

Tracy N. Ferguson
Public Representative

Public Representative Team

Lawrence Fenster
Lyudmila Bzhilyanskaya
Kenneth Richardson

901 New York Avenue, NW, Suite 200
Washington, DC 20268-0001
PH: 202-789-6844, FAX: 202-789-6891
Email:Tracy.Ferguson@prc.gov

[83] *See* USPS-FY-14-1.